

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company has been proactively complying with all code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules, and implementing improved governance and disclosure measures to ensure the sustainable and healthy growth of the Company. The Board has established Audit Committee and Remuneration and Review Committee to ensure the efficient operation of the Board and set up a regulation system catering to the management of the Company for effective implementation of their respective duties. The Company will continue to enhance its corporate governance measures and transparency in the Shareholders' regard.

THE BOARD OF DIRECTORS

The Board comprises ten executive Directors, namely Mr. Liu Dagong (Chairman), Mr. Zhao Yanshui, Mr. Liu Wenying, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei and four independent non-executive Directors, namely Mr. Lu Zhongmin, Mr. Chan Sau Shan, Gary, Mr. Chen Zhi and Mr. Luo Xiwen. Their respective biographical details are set on pages 26 to 27 of this annual report.

All directors of the Company (including independent non-executive Directors) were re-elected on 16 June 2006 and the employment took effect from 1 July 2006 for a term of three years. Among them, Mr. Luo Xiwen is a newly-appointed independent non-executive Director.

The Board is the legal business decision body of the Company. It is responsible for the leadership and control over business and operation of the Company, aiming to assist Shareholders to attain their best interests.

Under the leadership of the chairman, the Board is responsible for formulating and reviewing the Group's development and operating strategy and policies, making annual budget, final accounting scheme and business plans, proposing dividend plans as well as supervising management members in accordance with relevant laws and regulations and the Articles of Association. Led by the general manager, the management of the Company is responsible for supervision over the Company's day-to-day operations, policy planning and implementation and reports to the Board in respect of all businesses. The general manager keeps in contact with all directors and ensures directors' timely access to adequate, complete and reliable information.

Basic principles applied in the Board's discussion of matters include: group decision, joint and several responsibility of the Directors and the minority going along with the decision of the majority.

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During the year, the Board of the Company convened a total of 11 meetings. Attendance of each Director is as follows:

	Name of Directors	Number of attendance / number of possible attendance
Chairman	Mr. Liu Dagong	11/11
Executive Directors	Mr. Zhao Yanshui	11/11
	Mr. Liu Wenyong	11/11
	Mr. Yan Linjiao (<i>General manager</i>)	11/11
	Mr. Li Tengjiao	11/11
	Mr. Shao Haichen	11/11
	Mr. Zhang Jing (<i>Financial controller</i>)	11/11
	Mr. Li Youji	10/11
	Mr. Liu Shuangchen	11/11
	Mr. Zhao Fei	11/11
Independent non-executive Directors	Mr. Lu Zhongmin	8/11
	Mr. Chen Sau Shan, Gary	4/11
	Mr. Chen Zhi	7/11
	Mr. Luo Xiwen	5/11

All of the four independent non-executive Directors meet the evaluations on independence set out in Rule 3.13 of the Listing Rules.

All members of the Board had no relationship with each other in respect of finance, business, family or other material/connected relationship.

The Board convened four regular meetings this year. Before holding of each regular meeting, notice was delivered fourteen days prior to the date of the meeting, to ensure that all Directors have the opportunity to propose discussion matters to be listed in the agenda. Documents containing the meeting agenda were sent to each Director four days before the date of the meeting. Notices of other Board meetings have also been properly delivered to provide chances to all Directors to find time for their attendance.

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All Directors can access to opinion and services of the secretary to the Board, including documents containing the meeting agenda, minutes of meetings, daily information on shares on the Stock Exchange, and the Group's latest development and business progress.

The Board is of the opinion that the Company had complied with Code on Corporate Governance Practices in Appendix 14 of the Listing Rules as at 31 December 2006.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

The chairman of the Board is Mr. Liu Dagong while the general manage of the Company is Mr. Yan Linjiao.

Their biographical details are set out on page 26 of this annual report.

During the year, the function of the Board's operation and management was clearly separated from that of the company's day-to-day business management, and with a balance of power and authority, power was not concentrated in any individual.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The term of the four independent non-executive Directors in the current session of the Board is three years from 1 July 2006 to 30 June 2009. As at 30 June 2006 Mr. Lu Zhongmin and Mr. Chan Sau Shan, Gary, had served as independent non-executive Directors of the Company for full nine years. The Company considered that they remained independent and hence proposed to the general meeting for audit of such independence, On 16 June 2006, the two were re-elected as independent non-executive Directors by a special resolution passed at the Company's general meeting. Mr. Luo Xiwen is a new independent non-executive Director, who was elected and appointed at the said general meeting.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of practice (the "Model Code") with standards not less competent than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions conducted by the Directors. During the Reporting Period, all Directors (after specific enquiries by the Company), have complied with the Modal Code in relation to securities transactions conducted by the Directors.

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DUTIES OF DIRECTORS IN RESPECT OF FINANCIAL STATEMENTS

The Directors declare that they are responsible for preparing financial statements to reflect a true and fair view of the Company for each financial year. The auditors' statement on their reporting duty is also incorporated in the annual report, but such statement and the Directors' declaration should be independent from each other.

The Directors consider that the Company has implemented proper accounting policies and complied with all relevant accounting standards in preparation of the financial statements.

The Directors have the duty to ensure the Company's accounting records are properly kept, which must reasonably and precisely disclose the financial condition of the Company. Financial statements of the Company shall be prepared in accordance with laws in PRC, disclosure requirements in Companies Ordinance and the relevant accounting standards.

DIRECTORS' REMUNERATION

In accordance with the Listing Rules, the Company has set up Remuneration and Review Committee to formulate policies of the Directors' remuneration and determine remunerations thereof. The terms of reference thereof is set out as follows:

- (i) to study and set review standards for Directors and managers, to carry out review and produce suggestions;
- (ii) to study, review and formulate remuneration policies and scheme for Directors and senior management.

Members of the Remuneration and Review Committee include Mr. Chen Zhi (chairman), Mr. Liu Dagong and Mr. Lu Zhongmin.

Remuneration of the Company's executive Directors is subjected to their positions, performance and contribution and is linked with the operating results of the Group.

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During the Reporting Period, the committee convened one meeting to discuss matters relating to remuneration with the attendance of Mr.Chen Zhi, Mr. Liu Dagong and Mr. Lu Zhongmin. The Remuneration and Review Committee has formulated relevant remuneration policies for executive Directors, evaluated performance of executive Directors and approved contract terms thereof. Relevant details are set out on page 36 of this annual report.

NOMINATION OF DIRECTORS

Executive Directors shall be nominated by the controlling Shareholder, China Yituo, whose appointment is subject to approval of the Shareholders of the Company at general meetings.

Independent non-executive Directors shall be nominated by the Board, whose appointment is subject to approval of the Shareholders of the Company at general meetings.

The nomination, appointment and re-appointment of Directors is made on the basis of expertise, work experience, diligence, and level of knowledge in a fair and objective manner.

AUDITORS' REMUNERATION

Ernst & Young is responsible for provision of the statutory audit services and other services in relation to the Company's 2006 Interim Report and the financial statements of the Company for the year ended 31 December 2006 prepared under the Hong Kong Financial Reporting Standards and the PRC Accounting Standards and Regulations. The Company has paid RMB5,700,000 for such services, which included taxes and disbursements.

During the year, Ernst & Young did not provide any unaudited services to the Company.

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AUDIT COMMITTEE

As required in the Listing Rules, the Company has set up Audit Committee. The terms of reference thereof is set out as follows:

- (i) to review the appointment and the audit fee of accountants as well as any questions in respect of their resignations or dismissal;
- (ii) to review the annual and interim financial information of the Company and the disclosure thereof;
- (iii) to regulate and review the internal control system of the Company, particularly the implementation of connected transactions;
- (iv) to provide advice on the proper operation of the Company.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lu Zhongmin (Chairman), Mr. Chan Sau Shan, and Mr. Chen Zhi.

In the year 2006, the Audit Committee convened two meetings with the financial controller and external auditors. The results of the Company for year 2005 and the interim results of the Company for year 2006 were considered. The Audit Committee has also reviewed the annual results of the Group for the year ended 31 December 2006.

INTERNAL CONTROL

The Board is responsible for the overall internal control system of the Company. During the year, the Directors reviewed the internal control system of the Company and its subsidiaries, and are satisfied with their overall performance. The Audit Committee has been performing their duties throughout the year and has reviewed and discussed the financial results and internal control system of the Company.

The Board formulated series of internal controls and management standards and examined the overall financial position of the Company to secure the Company's assets. It also rationalised the Company's operation and management process and conducted regular supervision on risk management for avoidance of materials risks or losses and to ensure the decisions made by the Board were in compliance with the laws and regulations and were implemented. In implementing the Group's development strategy and operating policy, the Board formulated management systems relating to the Company's corporate governance and enhanced the management on subsidiaries of the Company to regulate their performance.

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INVESTOR RELATIONS

During the year, there was no change in the Articles of Association of the Company.

Details of the shareholder category of the Company and total number of holdings were set out from Page 39 to Page 40 of the annual report as at 31 December 2006.

The public float capitalisation of the Company reached HK\$884,400,000.

The Board of the Company was committed to the effective communication with shareholders, and took the opportunity to vote in respect of every independent matter by way of the independent proposal in the Annual General Meeting held on 16 June 2006, and the Extraordinary General Meetings respectively held on 22 December 2006 and 28 July 2006 and all the proposals were approved.

During the Reporting Period, there was no material uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Board and the Audit committee have no different views in respect of the appointment of the external auditors.

By order of the Board

Liu Dagong

Chairman

Luoyan, the PRC
20 April 2007